



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (Establishing values of customer reliability) Rule 2018

Rule Proponent
COAG Energy Council

10 May 2018

**RULE
CHANGE**

Inquiries

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

E: aemc@aemc.gov.au

T: (02) 8296 7800

F: (02) 8296 7899

Reference: ERC0231

Citation

AEMC 2018, Establishing values of customer reliability, Consultation Paper, 10 May 2018.

About the AEMC

The AEMC reports to the Council of Australian Governments through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

This work is copyright. The Copyright Act 1968 permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

Contents

1	Introduction	1
1.1	Background	1
1.2	Issues raised in the rule change request.....	3
1.3	Proposed solution	3
1.4	Assessment framework	4
2	Process for this rule change.....	7
2.1	Treatment as a non-controversial rule change	7
2.2	Key dates	7
3.	Issues for consultation	8
3.1	Responsibility for establishing VCRs	8
3.2	Methodology.....	9
3.3	Timing for reviews and updates to VCRs	10
3.4	Process for developing and updating methodology	11
3.5	Additional issues for consultation.....	13
4	Lodging a submission	15
4.1	Lodging a request not to make a rule under an expedited process	15
4.2	Lodging a submission to this rule change request	15
4.3	Lodging a submission electronically	15
4.4	Lodging a submission by mail	15
	Abbreviations.....	16
A	Indicative drafting	17
	The Commission’s indicative drafting	17

1 Introduction

On 22 December 2017, the Council of Australian Governments (COAG) Energy Council submitted a rule change request to the Australian Energy Market Commission (Commission) seeking to require the Australian Energy Regulator (AER) to assume responsibility for establishing values of customer reliability (VCR).¹ If made, the request would establish a formal mechanism for the AER to develop a methodology for the calculation of VCRs, and to update and review VCRs on an ongoing basis.

This consultation paper has been prepared to facilitate public consultation on the rule change request and to seek stakeholder submissions. This paper:

- provides a summary of, and background to, the rule change request
- outlines the process for progressing the rule change request
- identifies a number of questions and issues to facilitate consultation on this rule change request
- outlines the process for making submissions
- provides an indicative rule reflecting the rule change request.

1.1 Background

1.1.1 Context of the rule change request

VCRs indicate the value different types of customers place on having reliable electricity supply under different conditions, measured in dollars per kWh. In Australia, VCRs have only been estimated a limited number of times, and those estimates have varied significantly.² There has only been one comprehensive national examination of VCRs in the National Electricity Market (NEM). This national examination was carried out by the Australian Energy Market Operator (AEMO) in 2014.³

In 2013, the Commission carried out reviews of the national framework for transmission and distribution reliability. In these reviews the Commission recommended making the AER responsible for establishing VCRs as this would be consistent with its role as the economic regulator.⁴ Further, the Commission proposed that the AER:

- develop, publicly consult on, and publish a national methodology for estimating the VCRs on a consistent basis across the NEM
- update VCRs at least every five years, and escalate the VCR by an appropriate methodology each year in between updates
- publish any changes to VCR values and the methodology

1 Rule change request, p. 1.

2 Rule change request, p. 3.

3 AEMO, *Value of Customer Reliability Review*, 2014.

4 AEMC *Review of the national framework for distribution reliability*, 2013, p. 49.

- develop VCRs to reflect the range of customers and geographic locations within each NEM jurisdiction
- take into account the range of uses for VCR measures when updating the methodology and VCR values
- use AEMO's methodology and measures of VCRs as a starting point for their review, further refined with public consultation.⁵

On 13 December 2013 the Standing Council on Energy and Resources (now COAG Energy Council) agreed to make the AER responsible for determining VCRs for use in setting of reliability requirements.

1.2.2 Current regulatory arrangements

At the time of the reviews there were no references in the NER to VCRs. Since the reviews were completed, the NER has been updated to include one reference to VCR. This reference is in relation to the Reliability Panel having regard to any value of customer reliability determined by AEMO. The rule is:

s.3.9.3A "Requirements for reliability standard and settings review...(e) in conducting the reliability standard and settings review the Reliability Panel:... (4) must have regard to any value of customer reliability determined by AEMO which the Reliability Panel considers relevant;"

There are no other references to VCR in the NER. This means that no single body is formally responsible for reviewing and updating VCR estimates on a regular basis.

1.2.3 Current uses of VCRs

VCRs are used in a number of areas in the NEM. Some of the current uses of VCRs are detailed below. The list is not exhaustive, and does not include potential uses of VCRs. VCRs are currently used:

- by the AER and network service providers
 - in service target performance incentive schemes (STPIS) as the key measure for linking outcome performance with the STPIS incentive
 - as an input in most regulatory investment test assessments
 - in regulatory resets as a key factor in assessing major capital projects
 - to assess a network's capital forecast as part of revenue proposals
- by jurisdictional network regulators in the setting of transmission and distribution reliability standards and targets, for example in IPART's 2016 Electricity Transmission Reliability Standards⁶
- by the Reliability panel
 - as a consideration in reviews, for example to quantify the value of unserved energy in the 2016 Review of the System Restart Standard⁷

⁵ AEMC *Review of the national framework for distribution reliability*, 2013, pp. 48-49.

⁶ IPART, *Electricity Transmission Reliability Standards*, 2016, p. 5.

- to inform wholesale market settings such as market price caps
- by network service providers to deliver better network investment decisions – increasingly to determine timing for minor capital projects and operational projects as well as for major capital projects.

1.2 Issues raised in the rule change request

The COAG Energy Council considers that the VCR is a key input in determining the level of reliability that has the most value to customers.⁸ This impacts the level of investment and maintenance expenditure undertaken by network businesses, amongst other things.

As there is no single body responsible for establishing VCRs on a regular basis, there has been variation in both the methodology and the resulting VCRs in previous estimations. The variations impact transparency and make it difficult to compare reliability performance between networks. The lack of responsibility of a single body also results in duplication of VCR estimations and higher costs on network planners, systems operators, regulators and policy makers.

Establishing the AER as responsible for the on-going review and updating of VCRs for each regulated network will result in nationally consistent VCRs and would allow improvements to methodology from experience gained.⁹

Having a nationally consistent and updated VCR will assist the AER to better:

- design the STPIS
- monitor the regulatory investment test assessment
- analyse and report network service provider’s reliability performances, and
- assess a network’s capital forecast as part of its consideration of a network’s revenue proposal.

Nationally consistent VCRs would also be useful in other contexts, for example to improve jurisdictional arrangements for setting network reliability standards, for network planning and network augmentation.¹⁰

1.3 Proposed solution

The rule change request proposes that the AER assume responsibility for establishing VCRs. If made, the request would have the effect of requiring the AER to estimate VCRs, including to:

- develop a single methodology including direct customer engagement, such as through surveys, that can be used for estimating VCRs on a consistent basis across the NEM¹¹

7 Reliability Panel AEMC *Review of the System Restart Standard*, 2016, p. 45.

8 Rule change request, p. 3.

9 Rule change request, p. 3.

10 Rule change request, p. 4.

- develop VCRs to reflect the range and geographic locations of customers in each network¹²
- update VCRs at least every five years to align with the standard setting process and revenue determination process for each network business, where possible¹³
- in between five yearly updates, adjust VCRs by an appropriate methodology each year¹⁴
- undertake public consultation in making any changes to the VCR methodology to allow stakeholder views to be taken into account¹⁵
- publish any changes to VCRs following any updates, annual adjustments in VCRs, and reviews.¹⁶

The rule change request also makes reference to the AER being required to regularly review, update and publish the VCR methodology. However, it provides no further detail as to how often this should occur or the degree of consultation this should require.¹⁷ Clause 8.12(e) of the indicative rule at Appendix A provides for a periodic review and update of the VCR methodology, without specifying a particular timeframe. However, the Commission considers that the most logical timeframe would be five yearly updates that conclude prior to the five yearly updates of VCR estimates.

The rule change request proposes that the AER be required to have regard to the current and potential uses of VCRs in making decisions about updating VCR estimates and reviewing the methodology.¹⁸ The COAG Energy Council has also indicated that the AER is expected to initially review the methodology of AEMO's 2014 Value of Customer Reliability Review and consider whether any improvements should be made.¹⁹

The rule change request does not include a proposed rule. It also does not include any proposed changes to s3.9.3A of the NER or consider whether the rule should apply to the Northern Territory.

Copies of the rule change request may be found on the AEMC website, <https://www.aemc.gov.au/rule-changes/establishing-values-of-customer-reliability>.

1.4 Assessment framework

The following section outlines the assessment framework that will be used by the Commission in coming to a decision on the rule change request.

11 Clauses 8.12(a) and 8.12 (b)(iii) of the indicative rule in Appendix A of this Consultation paper.

12 Clause 8.12(c)(ii) of the indicative rule in Appendix A of this Consultation paper.

13 Clause 8.12(e) of the indicative rule in Appendix A of this Consultation paper.

14 Clause 8.12 (b)(ii) of the indicative rule in Appendix A of this Consultation paper.

15 Clause 8.12 (e) of the indicative rule in Appendix A of this Consultation paper.

16 Proposed rule change, p. 2; See indicative rule 8.12 (f) in Appendix A of this Consultation paper.

17 Proposed rule change, p. 2.

18 Proposed rule change, p. 2.

19 Proposed rule change, p. 2.

1.4.1 Achieving the NEO

Under the NEL the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective (NEO).²⁰ This is the decision making framework that the Commission must apply.

The NEO is:²¹

“To promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

The Commission considers that the relevant aspect of the NEO is promotion of the efficient operation of electricity services with respect to reliability of supply of electricity and reliability of the national electricity system.

In determining whether the proposed rule is likely to promote the NEO, the Commission will have regard to the potential for this rule change to clarify responsibility and increase certainty, transparency and accountability in terms of the provision of a key reliability metric to the market. This has the potential to increase market efficiency and therefore be in the long term interest of consumers.

Under the Northern Territory legislation adopting the NEL²², the Commission must regard the reference in the national electricity objective to the “national electricity system” as a reference to whichever of the following the Commission considers appropriate in the circumstances having regard to the nature, scope or operation of the proposed rule:

- (a) the national electricity system;
- (b) one or more, or all, of the local electricity systems; or
- (c) all the electricity systems referred to above.²³

The Commission may make a differential rule,²⁴ provided the Commission is satisfied that, having regard to any relevant MCE statement of policy principles, the differential Rule will, or is likely to, better contribute to the achievement of the national electricity objective than a uniform rule.²⁵ However a differential rule is not a jurisdictional

²⁰ Section 88 of the NEL.

²¹ Section 7 of the NEL.

²² Section 6 of the National Electricity (Northern Territory) (National Uniform Legislation) Act 2015.

²³ Schedule 1, section 14A of the National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (which modifies section 88 of the National Electricity Law).

²⁴ Schedule 1, section 14F of the National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (which modifies section 91 of the National Electricity Law).

²⁵ Schedule 1, section 14B of the National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (which inserts a new section 88AA into the National Electricity Law).

derogation, participant derogation or rule that has effect with respect to an adoptive jurisdiction for the purpose of s. 91(8) of the NEL.²⁶

It does not appear to the Commission that a differential rule is required for the Northern Territory, but submissions with contrary views are welcome. This issue is discussed further in section 3.5.3.

²⁶ Schedule 1, section 14 of the National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (which modifies section 87 of the National Electricity Law).

2 Process for this rule change

2.1 Treatment as a non-controversial rule change

The COAG Energy Council proposed the rule change request be treated as non-controversial in accordance with s. 96 of the NEL and therefore that it could be processed on an expedited basis.

The Commission considers that the rule change request is a request for a non-controversial rule because it is unlikely to have a significant effect on the NEM. In reaching this conclusion the Commission notes that:

- given that VCRs are already being determined by various parties, the rule change request is improving consistency and clarity
- the request does not seek to define a methodology for calculating VCRs, just assign responsibility to the AER for calculating them
- the request does not seek to define or add to how VCRS are used.

Rule changes that are considered to be non-controversial may be processed under an expedited (faster) process under which there is only one round of consultation. The Commission must publish its final rule determination within eight weeks (extended from six in the accompanying S. 107 Notice) of commencing the rule change process.²⁷

The Commission has decided to use an expedited process to consider this rule change request provided that it does not receive any valid requests not to use the expedited process by 24 May 2018. To be valid, an objection should set out the reasons why the rule change request will have a significant effect on the national electricity market.

While the rule change is considered appropriate for an expedited process, it warrants an extension of the time between the publication of the consultation paper and the final rule determination from six weeks to eight weeks. The extension will allow more time to consider submissions to the consultation paper.

If there are no valid objections to the expedited process, the final determination will be published on 5 July 2018.

2.2 Key dates

The **key dates** for stakeholders in this process are as follows:

- commencement of this rule change process: 10 May 2018
- objections to an expedited process to be received by: 24 May 2018
- submissions to the proposal to be received by: 7 June 2018
- final decision to be published under an expedited process by: 5 July 2018.

²⁷ The AEMC has published a notice under sections 95 and 96 of the National Electricity Law to commence and assess this rule change request as a non-controversial rule.

3. Issues for consultation

This chapter raises issues and questions for consultation. It is broken down into issues related to:

- responsibility for establishing VCRs
- methodology for calculating VCRs
- timing of VCR calculations
- process for developing and updating methodology
- additional issues for consultation.

To assist stakeholders in making submissions the Commission has also produced an indicative rule which reflects the rule change request. Where the rule change request does not address some issues, the Commission has filled in these gaps to allow for a complete indicative rule. The indicative rule is provided in Attachment A.

3.1 Responsibility for establishing VCRs

The rule change request proposes to assign the AER responsibility for establishing, reviewing, updating and publishing a VCR methodology and VCR estimates across the NEM on an ongoing basis.²⁸

The COAG Energy Council considers that having VCRs which are developed by a single independent body using a consistent methodology is preferable to VCRs being determined jurisdictionally. This is likely to provide consistency, and allows a national VCR to be able to be determined.

Given the above uses, a national body would need to estimate the VCR. The AEMC, AEMO, the AER and the Reliability Panel are the four national bodies that could potentially be given responsibility for estimating VCRs.

The COAG Energy Council considers that the AER is the appropriate body to undertake the VCR estimation. The COAG Energy Council considers that the proposed VCR functions are consistent with the AER's statutory functions, as it will inform economic regulation activities, including setting of economic incentives schemes, performance reports for network businesses and monitoring the regulatory investment test assessment.²⁹

Question 1 - Responsibility for establishing VCRs

1.1 Is it important to have one national body responsible for establishing VCRs?

1.2 Is the AER the appropriate body to be responsible for updates to the VCR? If not, which body should be responsible for this task, and why?

²⁸ Rule change request, p. 2.

²⁹ Rule change request, p. 1.

3.2 Methodology

Methodology for calculating VCR estimates

The rule change request is predominately process based and therefore generally does not seek to instruct the AER regarding the methodology for calculating VCRs.

However, it does touch on methodology in three areas:

- when updating VCR estimates and reviewing the methodology the AER should have regard to the current and potential uses of VCRs³⁰
- the methodology should include direct customer engagement, such as through surveys, to determine the VCR³¹
- in considering the granularity of VCR estimates the AER should be required to develop VCRs to reflect the range and geographic locations of customers in each network.³²

There is a distinction between the NER providing guidance to the AER on the methodology used to determine VCRs and guidance regarding the objectives of the methodology. The Commission's initial view is that setting the objective in the NER is likely to be beneficial but guidance regarding the methodology is not. For example, the final rule could provide that the objective for the AER is to develop a methodology and calculate VCRs that are fit for purpose for the current and potential uses of VCRs. This would guide the AER's process but allow them discretion in how they develop and calculate VCRs.

The VCR methodology is likely to be complex. There is a wide range of options when determining techniques for gathering data, deciding on the required granularity of customer location and customer types, and determining the outage durations that should be examined, amongst other factors. Given the wide range of options available, the Commission does not consider it is appropriate to restrict the AER's discretion through guidance within the NER regarding the methodology. The Commission also notes that given the complexity involved in developing a VCR methodology it may be difficult within this expedited process to develop appropriate guidance.

Methodology for adjusting VCRs on an annual basis

In addition to updating VCRs on a five yearly basis, the rule change request suggests that the AER should adjust VCRs each year by an appropriate methodology.³³ The rule change request does not suggest any guidance to the AER for the methodology for such updates.

Question 2 - Methodology

2.1 - Should the NER provide an objective for the AER in calculating VCRs? If so,

³⁰ Rule change request, p. 2.

³¹ Rule change request, p. 2.

³² Rule change request, p. 2.

³³ Rule change request, p. 2.

should the objective be to calculate fit for purpose VCRs for the current and potential uses of VCRs? Are there any other objectives that should be explicitly stated?

2.2 – Should the NER guide the AER in determining the VCR methodology? If so, how?

2.3 – Should the NER guide the AER regarding the methodology for annual adjustments to VCR estimates? If so, how?

3.3 Timing for reviews and updates to VCRs

3.3.1 Timing for first review of VCRs

No specific timing is proposed in the rule change request for the first review of VCRs to be completed. However, the COAG Energy Council considered it should be done in time for the next round of regulatory determinations (for New South Wales, Tasmania, Northern Territory and Australian Capital Territory DNSPs).³⁴ The AER is due to publish final determinations for the next round of regulatory determinations in April 2019. VCRs would therefore need to be published in advance of this to be incorporated into the determinations.

The Commission does not consider it will be possible for the AER to develop and consult on a methodology, and calculate and publish VCR estimates prior to the next round of regulatory determinations. Based on past processes, a reasonable timeframe to develop and consult on the VCR methodology and to estimate the VCRs is likely to be around 18 months. A quicker estimation of VCRs would risk the robustness of the methodology or estimation process, especially in the context of the AER seeking to calculate VCRs across the entire NEM and Northern Territory. The Commission therefore proposes, and the indicative rule provides, that the AER is required to publish the first VCRs by no later than 31 December 2019 (just less than 18 months after the final rule will be published).³⁵

Question 3 - Timing for first review

3.1 - Is 31 December 2019 the appropriate date for the AER to be required to have published the first estimated VCRs? If not, what should the date be?

3.3.2 Timing of subsequent reviews and updates of VCRs

The rule change request proposes that the AER be required to update the VCRs at least every five years.³⁶ This requirement was a recommendation from both of the AEMC's reviews of the national frameworks for distribution reliability and transmission reliability. The Commission considered that updating the VCRs every five years

³⁴ Rule change request cover letter.

³⁵ Clause 8.12(f)(i) of the indicative rule in Appendix A of this Consultation paper.

³⁶ Rule change request, p. 2.

provided an appropriate balance between stability of the VCR for long term network planning, and maintaining the relevance of VCRs to reflect changes in customer preferences.³⁷

In addition to the five yearly updates of VCRs, the change request proposed that the AER be required to adjust the VCRs by an appropriate methodology each year.³⁸

Question 4 - Timing of subsequent reviews and updates

4.1 - Do stakeholders agree that a five yearly review period is an appropriate review cycle for updating VCRs?

4.2 - Is an annual adjustment of the VCR required?

3.4 Process for developing and updating methodology

3.4.1 Initial process for developing methodology

The COAG Energy Council proposed that the AER be required to develop a single methodology that can be used for estimating VCRs on a consistent basis across the NEM.³⁹ However, the request is silent on the consultation requirements for developing the initial methodology. When developing a methodology or guidelines requiring public consultation, the *Rules consultation procedures* would generally be used. The *Rules consultation procedures* would:

- require the AER to give a notice to all persons nominated by the relevant rule provision, or if no persons are specifically nominated, AEMO, all Registered Participants and interested parties (consulted persons).⁴⁰
- require the AER to publish a notice on its website inviting interested consulted persons to make written submissions, and must allow at least 25 business days for those submissions from the notice date. The AER would then have no more than 20 business days to consider all valid submissions, and a further 25 business days to hold any meetings with consulted persons deemed necessary.
- on the conclusion of those meetings, require the AER to publish a draft report and invite consulted persons to make submissions on the report. Submissions on the draft report must be allowed for at least 10 business days after the publication of the draft report. The AER would be required to consider all valid submissions in no more than 30 business days from the date submissions close, and publish a final report on its website.⁴¹
- generally take around 6 months to complete.

³⁷ AEMC, Review of the national framework for distribution reliability, September 2013, p. 51.

³⁸ Rule change request, p. 2. See indicative rule 8.12(b)(ii) and 8.12 (g) in Appendix A of this Consultation paper.

³⁹ Rule change request, p. 2. See indicative rule 8.12(a) in Appendix A of this Consultation paper.

⁴⁰ NER Version 107, s8.9(b), p. 1107.

⁴¹ NER Version 107, s8.9(c)-(l), pp. 1107-1109.

The Commission considers that it is likely to be appropriate to require the AER to follow the *Rules consultation procedures* when developing the VCR methodology. This is reflected in the indicative rule in the Appendix of this paper.⁴²

It may also be appropriate to require the AER to specifically consult with certain parties in developing the methodology under the *Rules consultation procedures*. For example, the COAG Energy Council expects the AER to take into account AEMO's 2014 Value of Customer Reliability Review and therefore it may be appropriate to require the AER to specifically consult with AEMO.⁴³ Furthermore, it may be appropriate to require the AER to consult with the Reliability Panel on the initial development of, and every subsequent review of, the methodology because the Reliability Panel is specifically required to have regard to the VCR under the NER.⁴⁴

Question 5 - Initial process

5.1 - Should the AER be required to consult with specific parties when determining the methodology for the initial estimation of VCRs? If so, who?

5.2 - Should the AER be required to follow the Rules consultation procedures in developing the VCR methodology?

3.4.2 Subsequent process for reviewing and updating methodology

Reviews to occur on a regular basis

The rule change request suggests that the methodology should be reviewed and updated on a regular basis, but provides no suggestion for how often this should occur.⁴⁵ The Commission considers that the most logical timeframe would be five yearly updates that conclude prior to the five yearly updates of VCR estimates (discussed in part 3.3.2 above).

Consultation requirements

The rule change request proposes that the AER be required to undertake public consultation in making any changes to the VCR methodology to allow stakeholder views to be taken into account. However, it is silent on the form that this consultation should take.

It may be appropriate to require the AER to specifically consult with certain parties in reviewing and updating the methodology under the *Rules consultation procedures*. For example, as noted above, it may be appropriate to require the AER to consult with the Reliability Panel on reviews of the methodology because the Reliability Panel is specifically required to have regard to the VCR under the NER.⁴⁶

42 See indicative rule 8.12(b)(i) in Appendix A of this Consultation paper.

45 Proposed rule change, p. 2.

45 Proposed rule change, p. 2.

45 Proposed rule change, p. 2.

46 s.3.9.3A of the NER.

It may also be appropriate that subsequent reviews and updates take into account the previous methodology, and follow the *Rules consultation procedures*, unless the variations are minor or administrative amendments to the VCR methodology.⁴⁷

Question 6 - subsequent review process

6.1 - Should the AER be required to follow the Rules consultation procedure for updates to VCR methodology?

6.2 - Should the AER be required to consult with specific parties when reviewing and updating the methodology? If so, who?

6.3 - If the Rules consultation procedures are to be followed for updates to VCR methodology, is it reasonable for minor or administrative amendments to be made outside of the Rules consultation procedures?

6.4 - Should subsequent reviews take into account the previously determined methodology?

6.5 - Is it appropriate for reviews of the methodology to occur on a five yearly basis? If not, what would be an appropriate review cycle?

3.5 Additional issues for consultation

3.5.1 Publication requirements

The rule change request proposes that VCRs must be published following any updates, annual adjustments in VCRs and reviews.⁴⁸ A requirement to publish the VCR methodology, both when initially developed, and when updated is not explicitly included in the rule change request.

The Commission considers that it is important to require publication of the VCR estimates and the methodology, both when initially determined, and when any updates or adjustments occur.

Question 6 - publication requirements

6.1 - Should the AER be required to publish estimates and the methodology, both when initially determined and when any updates or adjustments occur?

3.5.2 Amendment s 3.9.3A(e)(4) of the NER

The rule change request does not address the existing requirement in the NER for the Reliability Panel to have regard to any value of customer reliability determined by AEMO. As the rule currently references AEMO as determining a value of customer reliability, and AEMO will no longer determine a VCR, the Commission considers that this requirement should be changed to replace AEMO with the AER.⁴⁹

⁴⁷ Clauses 8.12 (e) of the indicative rule in Appendix A of this Consultation paper.

⁴⁸ Rule change request, p. 2.

⁴⁹ Clause 3.9.3A(e)(4) of the indicative rule change in Appendix A of this Consultation paper.

Question 7 - amendment s.3.9.3(A)(e)(4)

7.1 – Should clause s3.9.3A(e)(4) be amended to replace AEMO with the AER?

3.5.3 Issues specific to the Northern Territory

The rule change request proposes developing a methodology for estimating VCRs on a consistent basis across the NEM, but does not consider whether a differential rule is required for the Northern Territory.

The Commission's initial analysis indicates that VCRs would be of use in the Northern Territory and that a differential rule is not required. The Commission considers the AER should be responsible for determining the VCR methodology and estimating VCRs in the Northern Territory, as well as the NEM. This is likely to lead to consistency of methodology and provide a clear and transparent process for VCR estimates within the Northern Territory. Within its initial analysis the Commission has found no reason for differences in the rule in relation to the Northern Territory.

Question 8 - issues specific to the Northern Territory

8.1 – Is a differential rule required in the Northern Territory? If so, in relation to which parts of the indicative rule and why?

4 Lodging a submission

The Commission invites written submissions on this rule change proposal together with requests not to make a rule under the expedited process.

All enquiries on this project should be addressed to Alisa Toomey on (02) 8296 0633 or alisa.toomey@aemc.gov.au.

4.1 Lodging a request not to make a rule under an expedited process

Written requests not to make a rule under the expedited process in s. 96 of the NEL must include reasons for the request, and must be lodged with the Commission by 24 May 2018, either online or by mail.

4.2 Lodging a submission to this rule change request

Written submissions on the rule change request must be lodged with Commission by 7 June 2018, either online or by mail, in accordance with the requirements specified below.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests.⁵⁰ The Commission publishes all submissions on its website, subject to a claim of confidentiality.

4.3 Lodging a submission electronically

Electronic submissions, or requests not to make a rule under the expedited process, must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ERC0231.

The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

4.4 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The request or submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

The envelope must be clearly marked with the project reference code: ERC0231.

⁵⁰ This guideline is available on the Commission's website www.aemc.gov.au.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
COAG	Council of Australian Governments
Commission	See AEMC
NEM	National Electricity Market
NEO	National Electricity Objective
VCR	Value of Customer Reliability

A Indicative drafting

The COAG Energy Council did not submit a proposed rule with its rule change request. This appendix provides indicative drafting of the rule change request to assist stakeholders in making submissions to the consultation paper. Where the rule change request does not address issues which are important, the Commission has filled these gaps as described in Chapter 3.

The Commission's indicative drafting

New clause 8.12:

8. Administrative Functions

Part I Values of customer reliability

8.12 Development of methodology and publication of values of customer reliability

- (a) The *AER* must develop a methodology to be used by the *AER* to calculate values of customer reliability (**VCR methodology**).
 - (b) The VCR methodology must:
 - i. be developed in accordance with the *Rules consultation procedures*;
 - ii. include a mechanism for adjusting the values of customer reliability on an annual basis;
 - iii. include direct engagement of *retail customers* (such as through surveys); and
 - iv. be *published* promptly after it has been developed under paragraph (a).
 - (c) In developing the VCR methodology under paragraph (a), the *AER* must have regard to:
 - i. any current and potential uses for values of customer reliability; and
 - ii. the range and geographic locations of *retail customers* in each *network*.
 - (d) The *AER* must ensure that any VCR methodology developed under paragraph (a) is consistent with, and suitable for, the uses identified in subparagraph (c)(i).
 - (e) The *AER* must review and update the VCR methodology on a periodic basis in accordance with the *Rules consultation procedures*, and must *publish* an updated VCR methodology promptly after completion of the review. Notwithstanding this subparagraph (e), the *AER* may make minor and administrative amendments to the VCR methodology without complying with the *Rules consultation procedures*.
-

- (f) The *AER* must:
 - i. *publish* the first values of customer reliability, calculated in accordance with the VCR methodology, on or before 31 December 2019 and thereafter on an annual basis; and
 - ii. update the values of customer reliability at least once every five years, with the updated values to be *published* promptly thereafter.

Amended clause 3.9.3A(e)(4):

3.9.3A Requirements for reliability standard and settings review

- (e) In conducting the reliability standard and settings review the Reliability Panel:
 - (4) must have regard to any value of customer reliability determined by ~~AEMO~~ **the *AER* under clause 8.12** which the Reliability Panel considers to be relevant; and